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Contracting Processes, Internal Controls, and Procurement Fraud: A Knowledge Assessment

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- Background
- Theoretical Foundation
- Research Methodology
- Research Findings
- Implications of Research

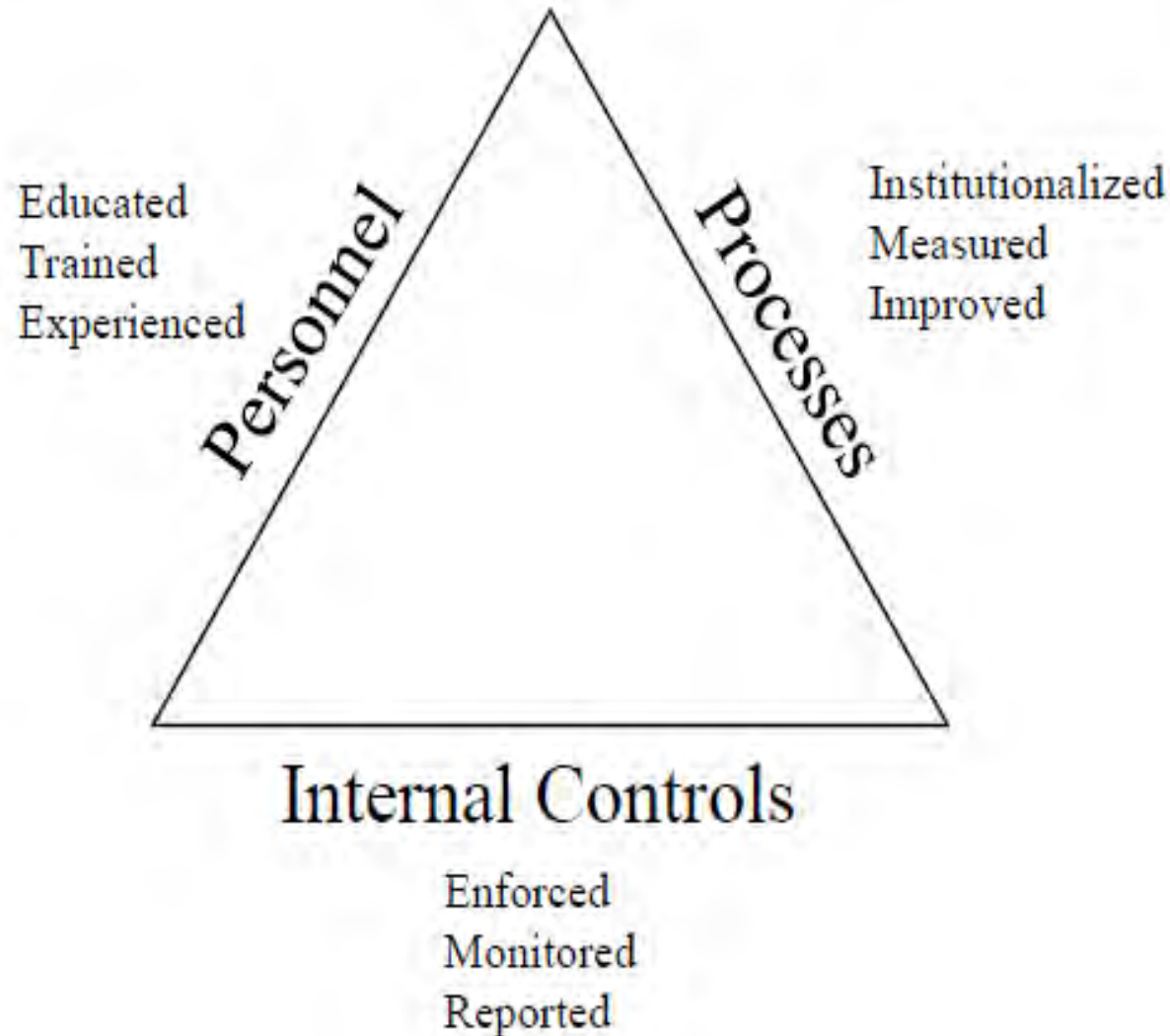


- Department of Defense (DoD) obligated over \$300B in FY2013 contracts (GAO, 2014)
- Deficiencies in DoD contract management result from lack of trained personnel, immature contracting processes, and weak internal controls (DoD, 2009, 2015)
- DoD contract management deficiencies result in higher level of vulnerability for procurement fraud



- The typical organization loses five percent of its revenues to fraud (ACFE, 2013b)
- DoD contracting workforce is key to deterring procurement fraud
- Knowledge of the procurement process and internal controls and their relationship to fraud vulnerabilities are critical

Theoretical Foundation





- Purpose of Research: Assess DoD contracting officers' knowledge of contract management processes, internal controls, and procurement fraud schemes.



1. What is the contracting workforces' knowledge level of procurement fraud as related to contract management processes, internal control components, and procurement fraud scheme categories?
2. What is the contracting workforces' perception of procurement fraud as related to the contract management processes, internal control components, and procurement fraud scheme categories?

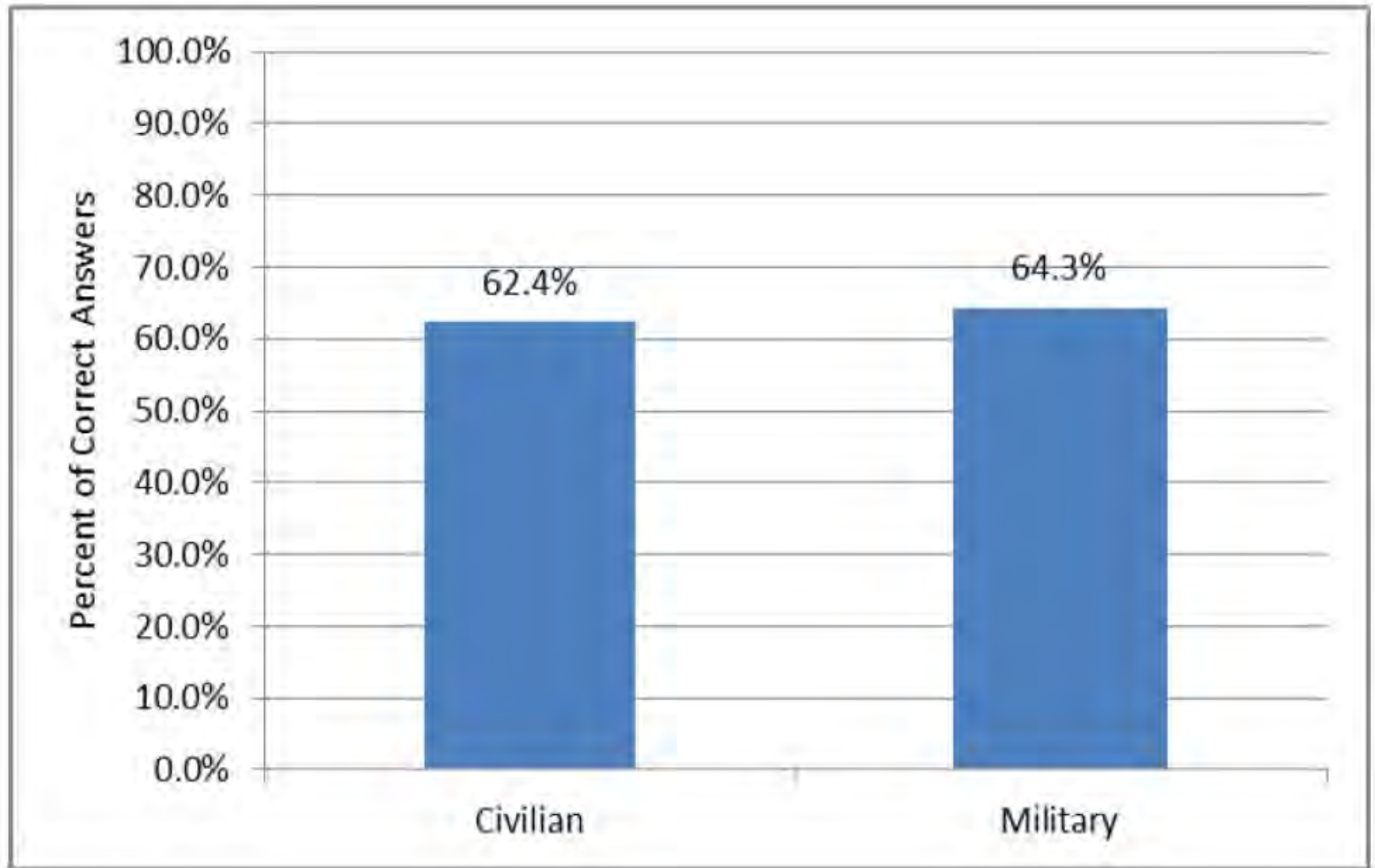


- Development of web-based assessment tool
 - Knowledge assessment items
 - Organization perception items
- Deployment of assessment tool
 - U.S. Army Mission Installation Contracting Command

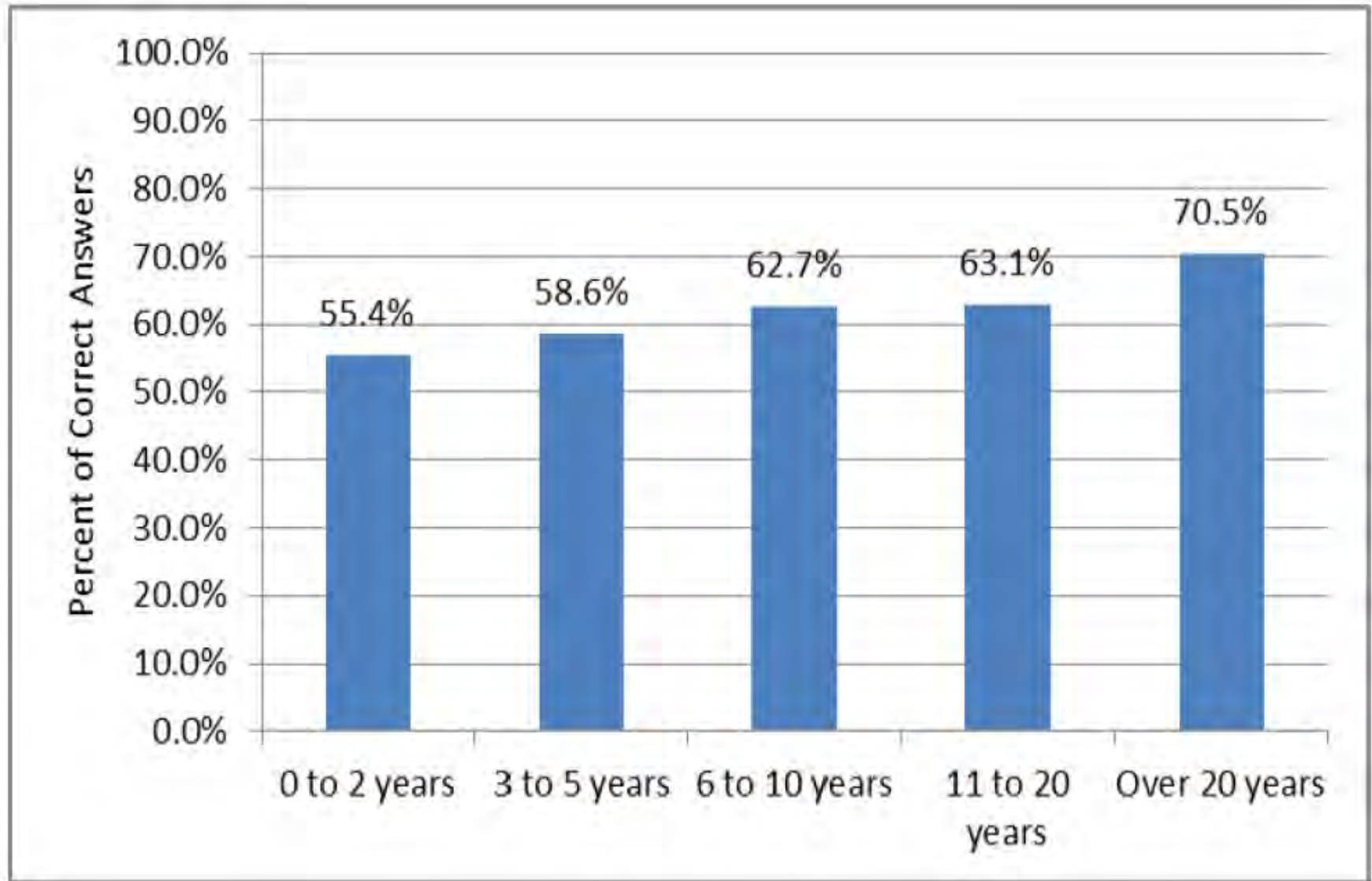
Assessment Tool Items by Categories

| Contracting Phase | Number of Questions | Procurement Fraud Scheme Category | Number of Questions | Internal Control Component | Number of Questions |
|-------------------------|---------------------|-----------------------------------|---------------------|--------------------------------|---------------------|
| Procurement Planning | 5 | Collusion | 3 | Control Environment | 3 |
| Solicitation Planning | 4 | Conflict of Interest | 6 | Risk Assessment | 6 |
| Solicitation | 5 | Bid Rigging | 6 | Control Activities | 6 |
| Source Selection | 5 | Billing/Cost/Pricing Schemes | 4 | Information and Communications | 4 |
| Contract Administration | 5 | Fraudulent Purchases | 3 | Monitoring Activities | 7 |
| Contract Closeout | 2 | Fraudulent Representation | 4 | | |
| Total | 26 | Total | 26 | Total | 26 |

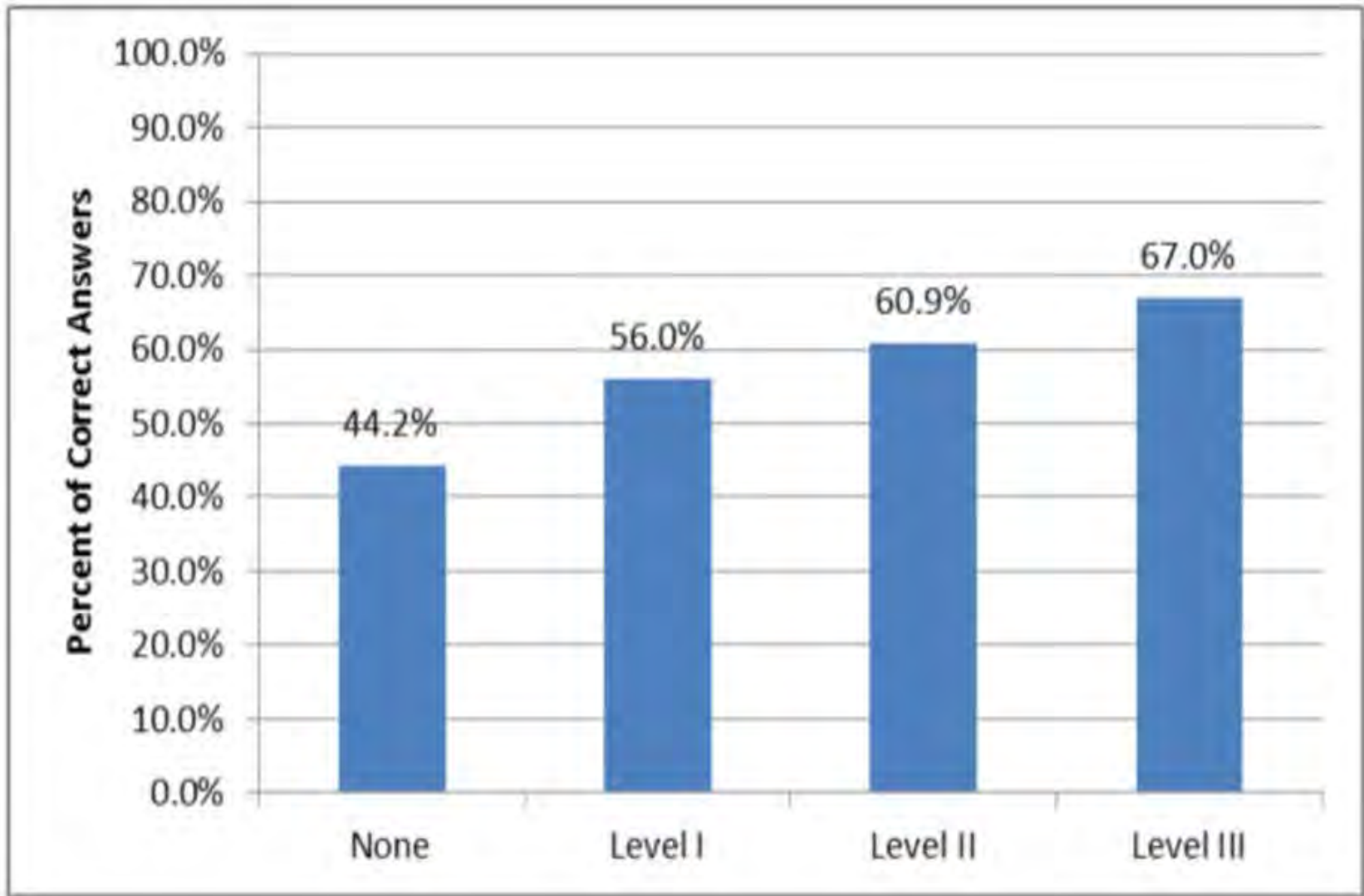
Average Score by Employment Status



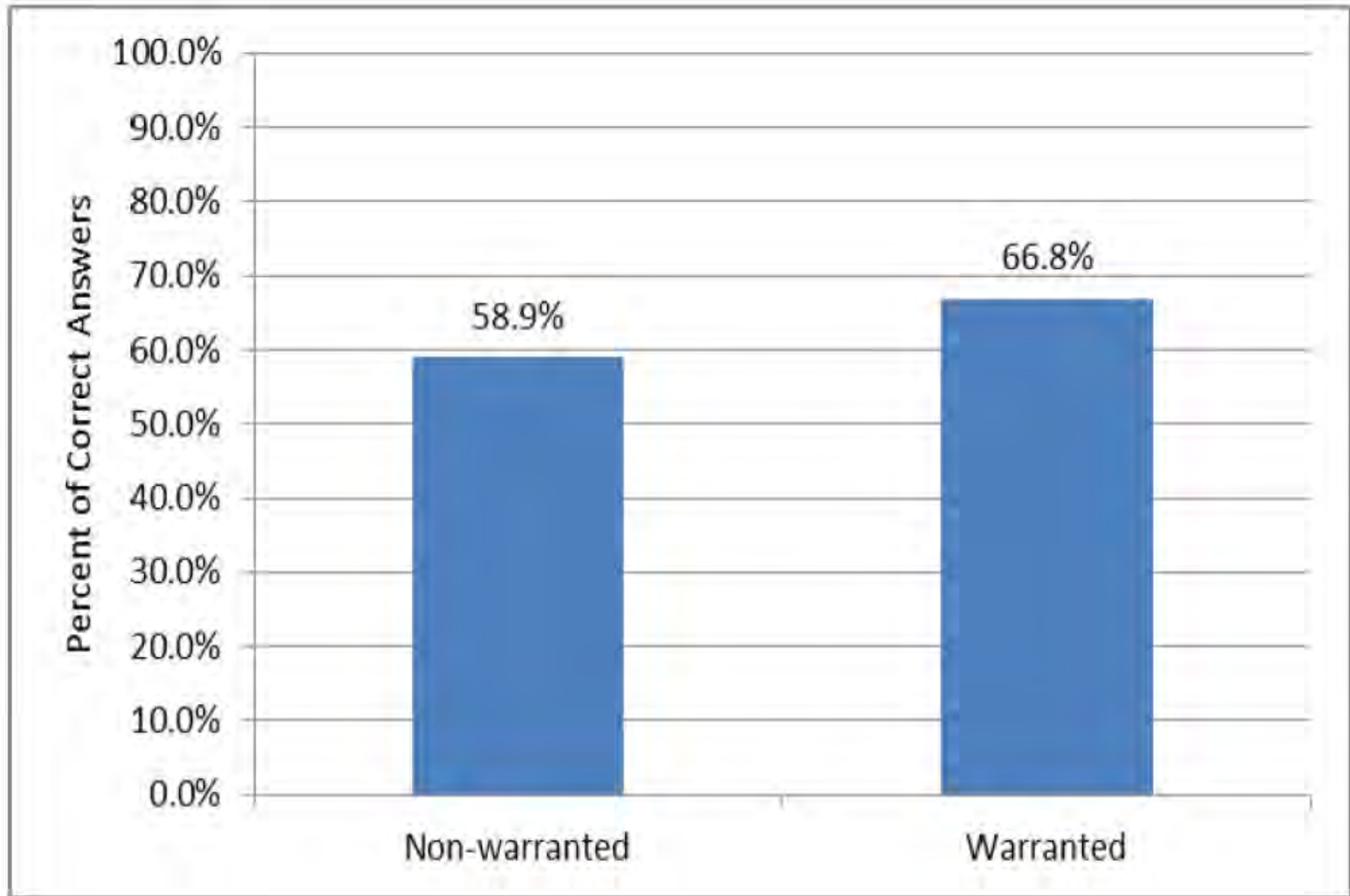
Average Score by Experience



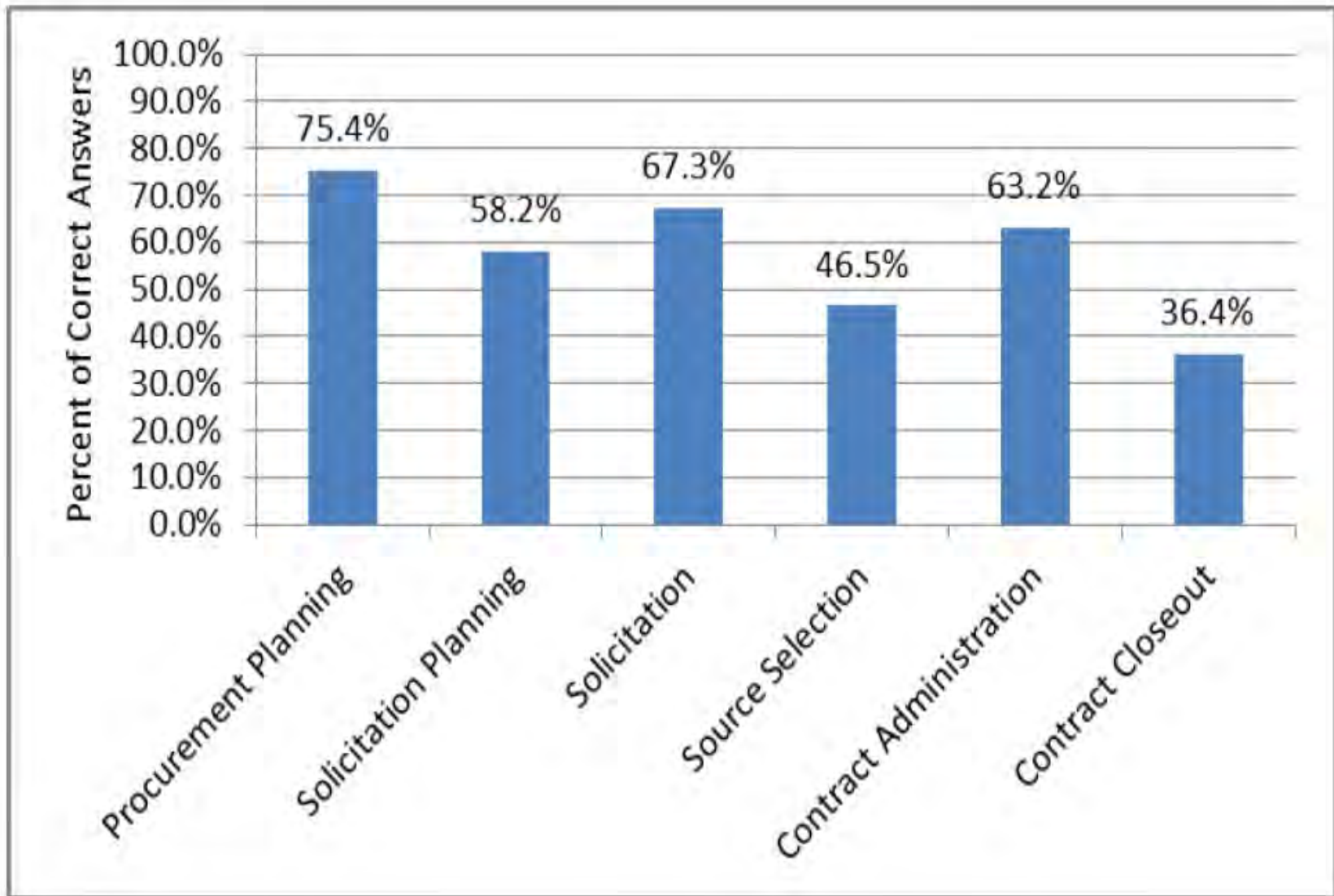
Average Score by DAWIA Level



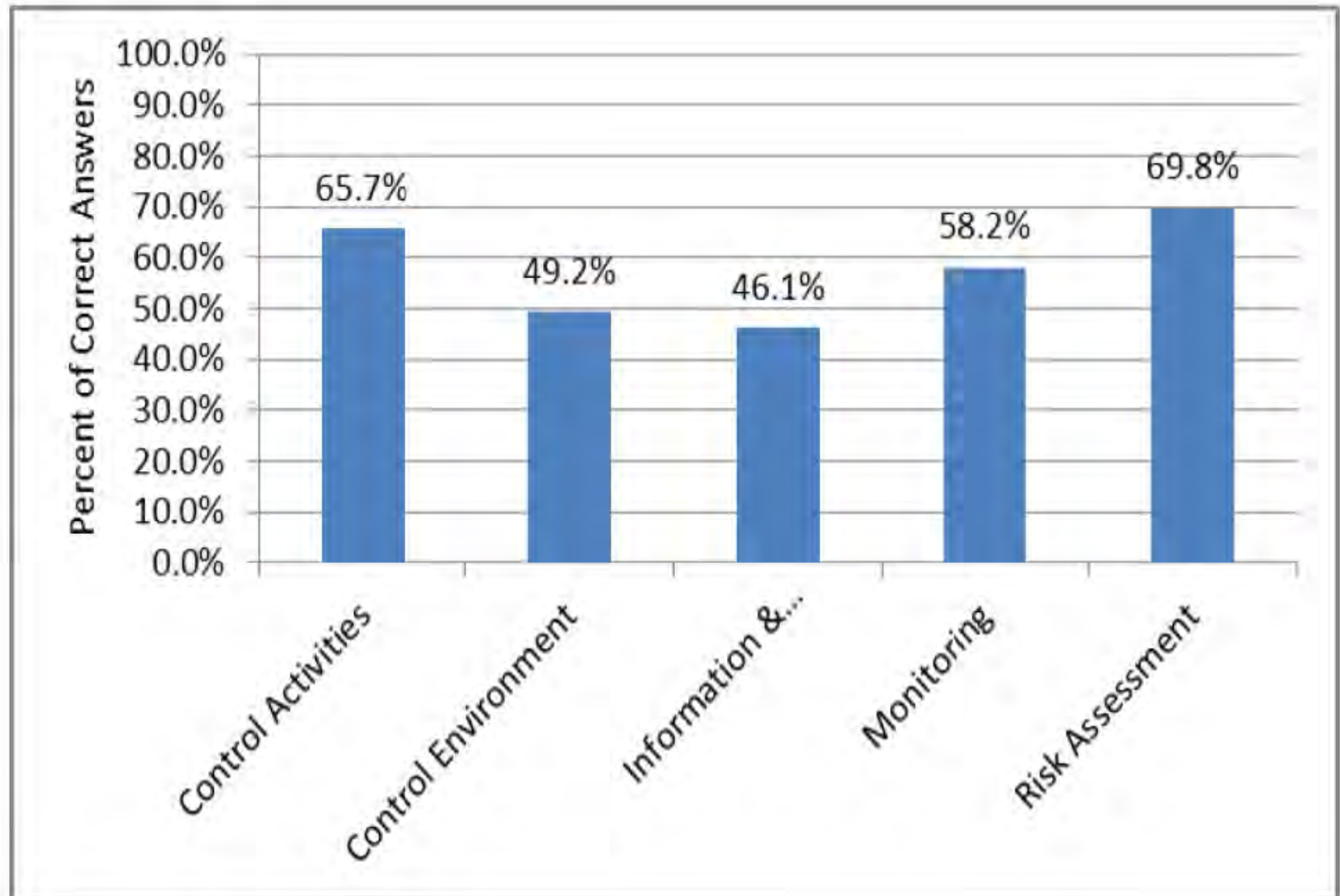
Average Score by Warrant Status



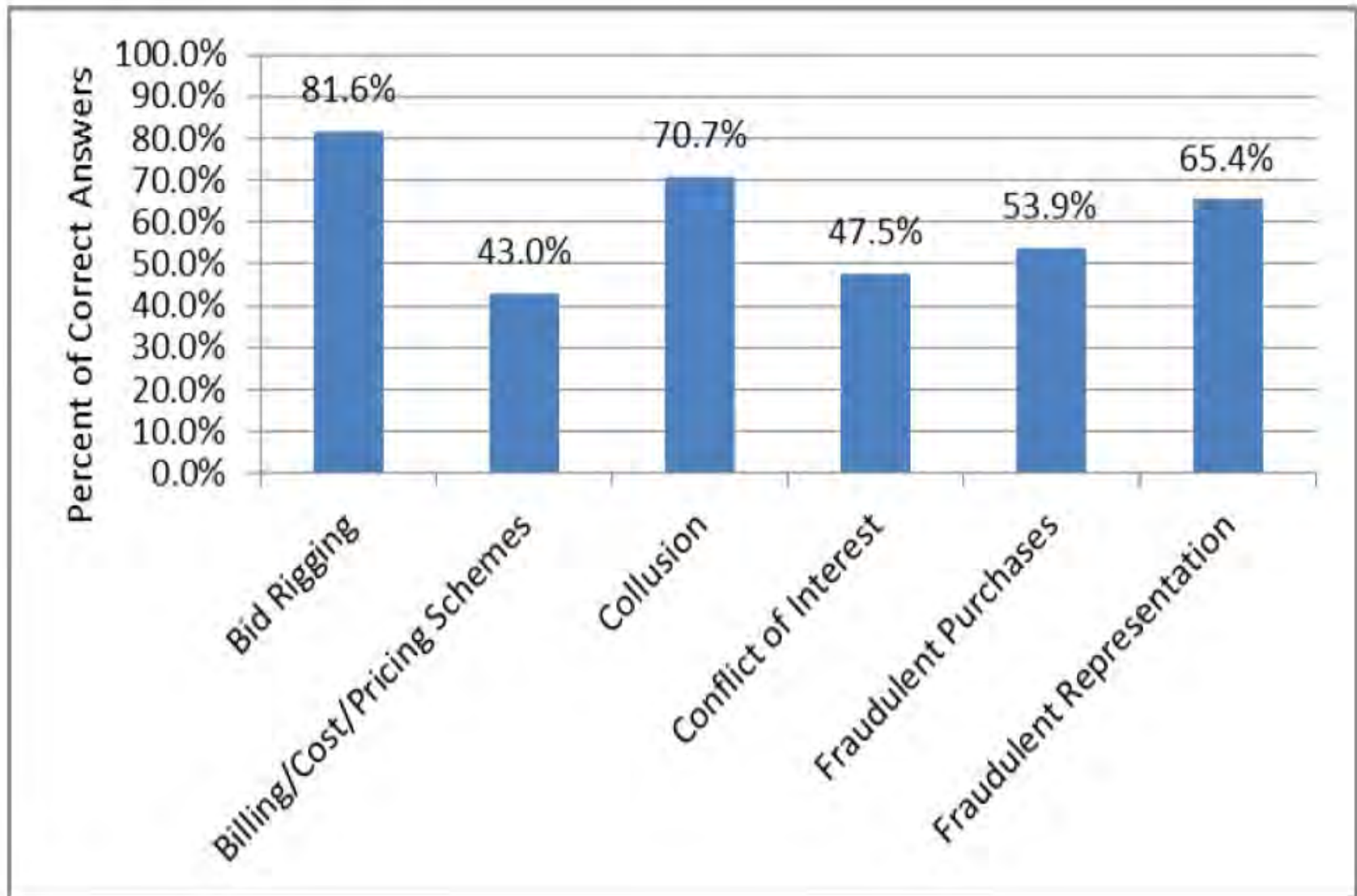
Average Score by Contract Management Process



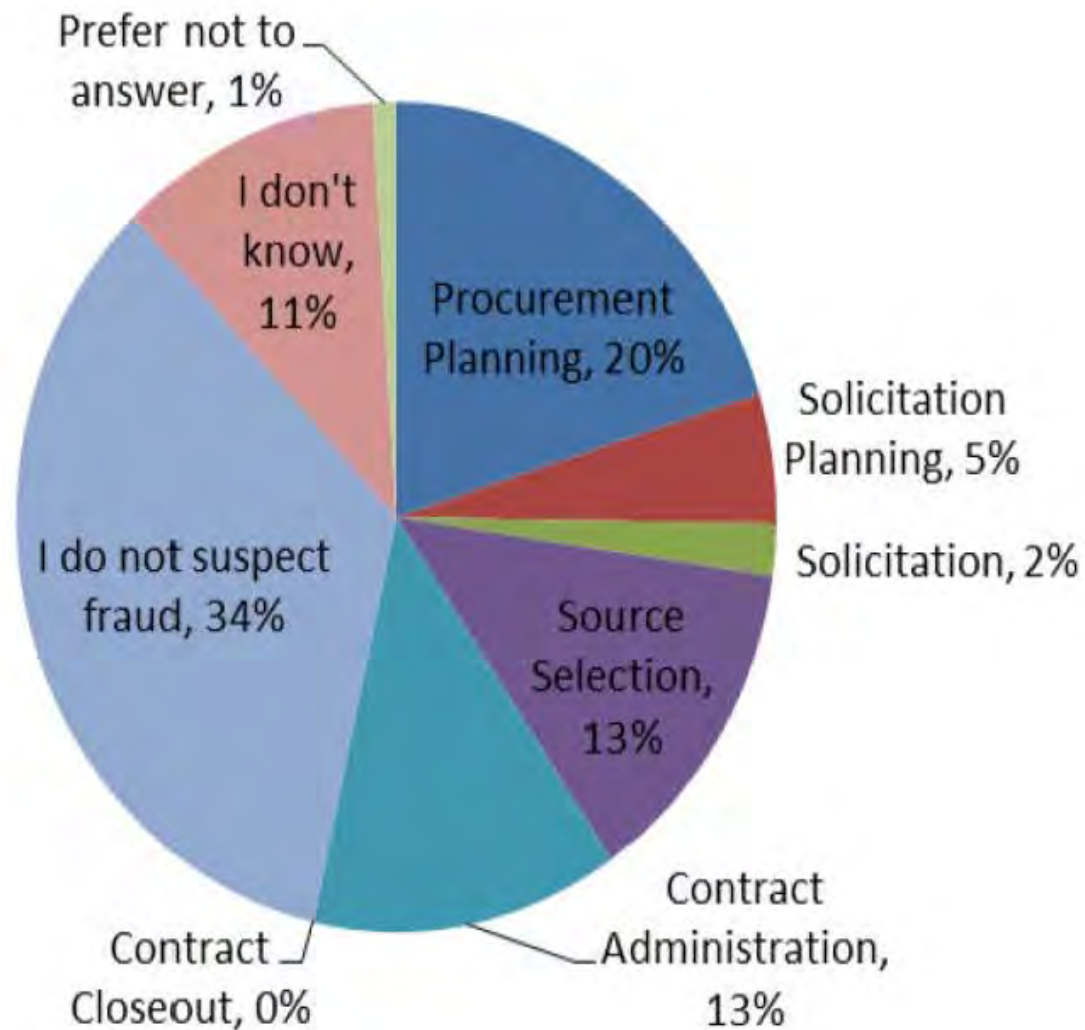
Average Score by Internal Control Component



Average Score by Procurement Fraud Scheme



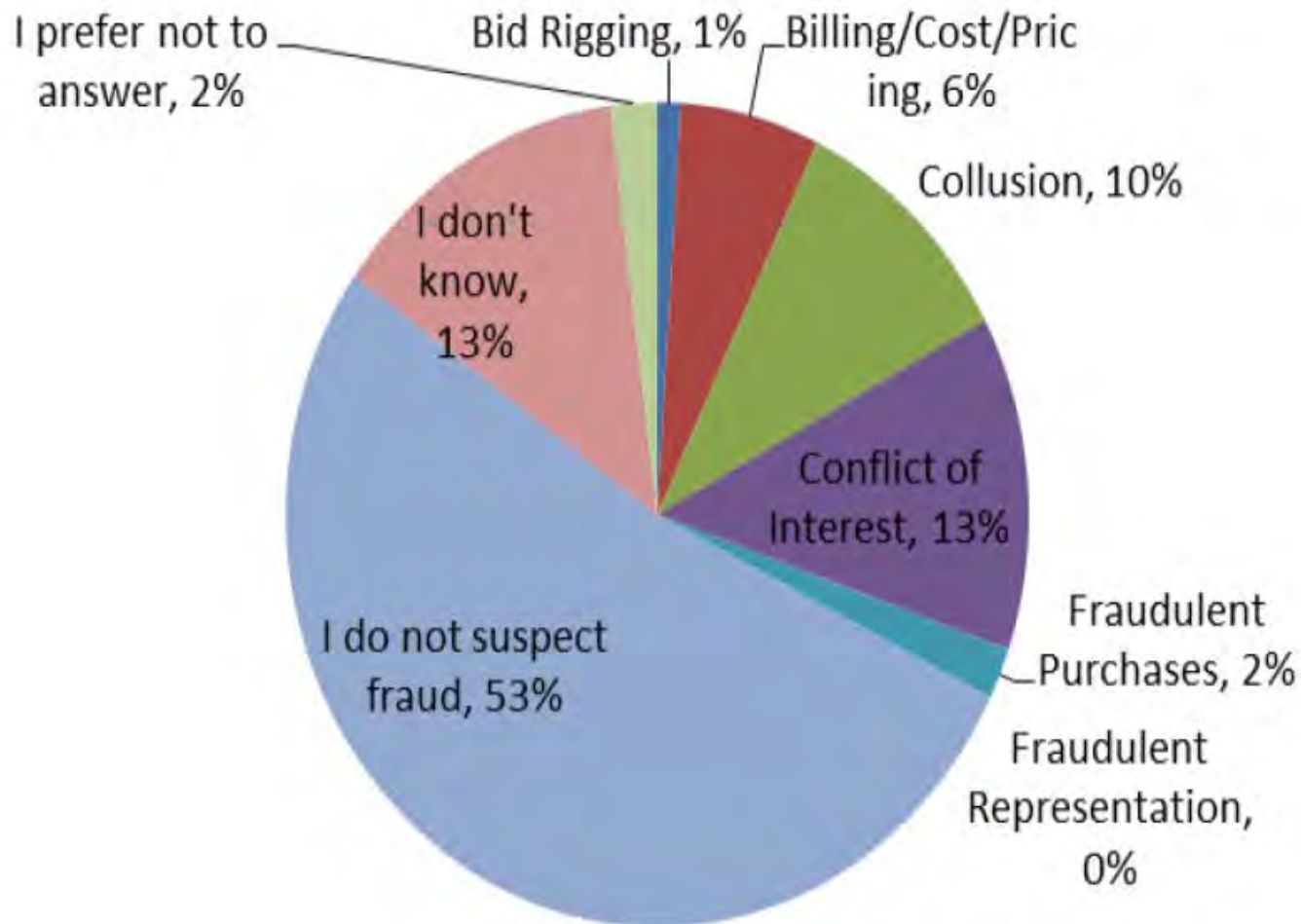
Responses to Contract Management Phase Item



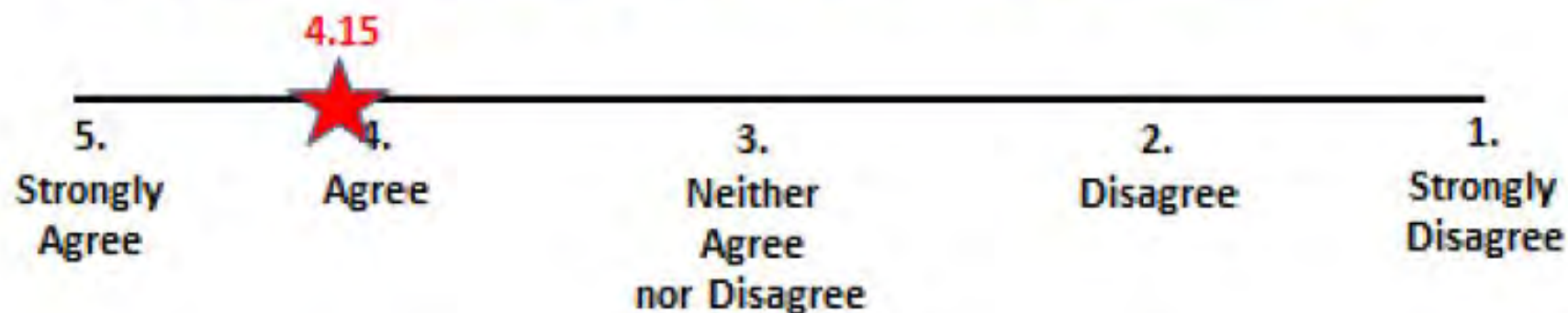
Responses to Internal Control Component Item



Responses to Procurement Fraud Scheme Item

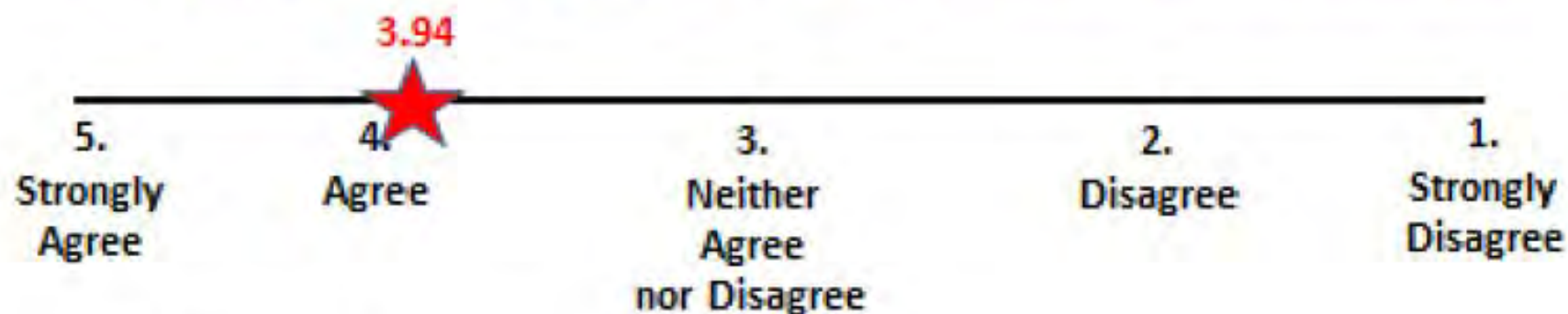


1. My department has clear lines of authority and responsibility.



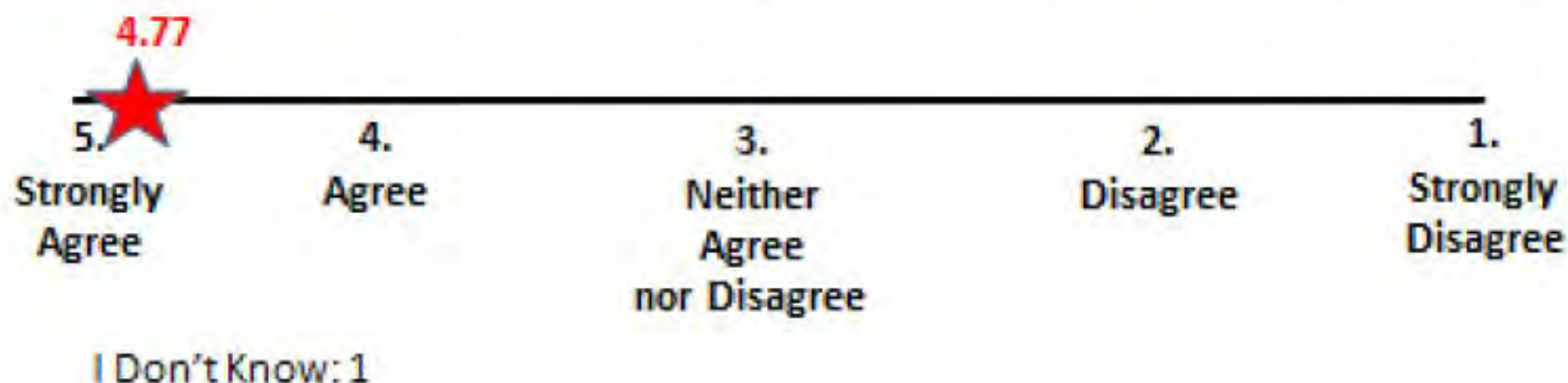
I Prefer Not to Answer: 1

2. My department is regularly reviewed by internal or external auditors.

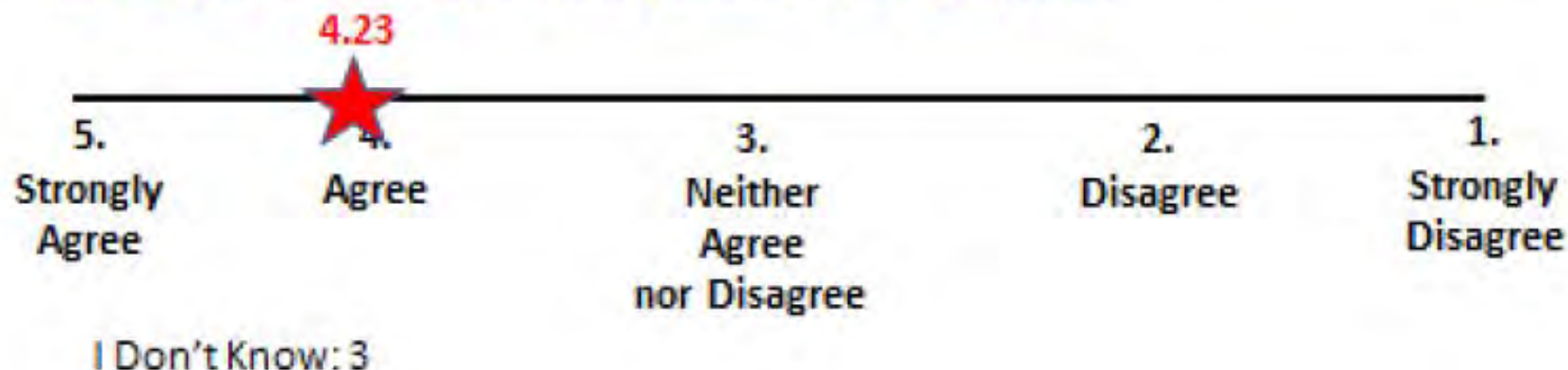


I Don't Know: 9

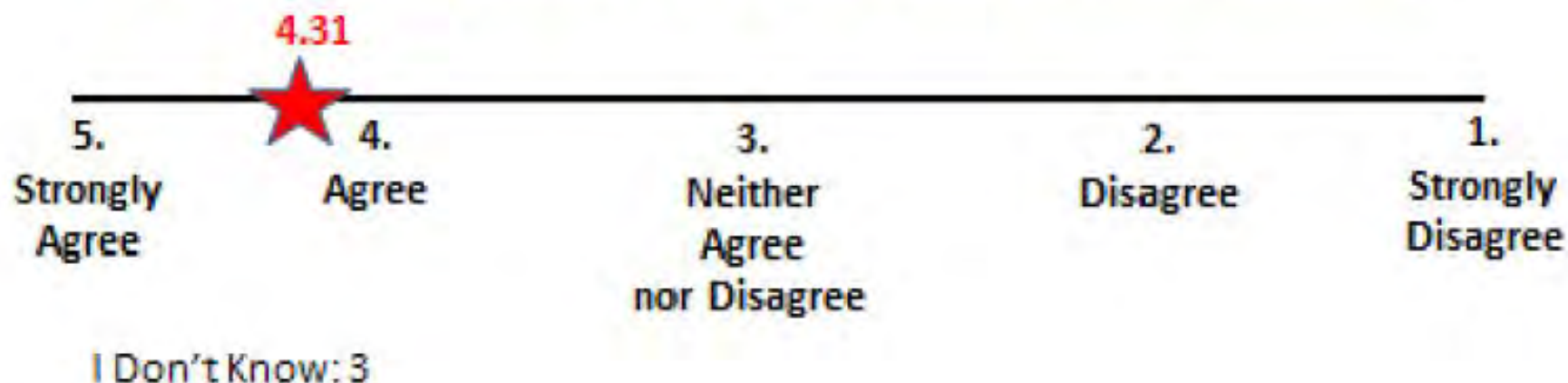
3. I would report fraudulent or suspicious activity if I saw or suspected it.



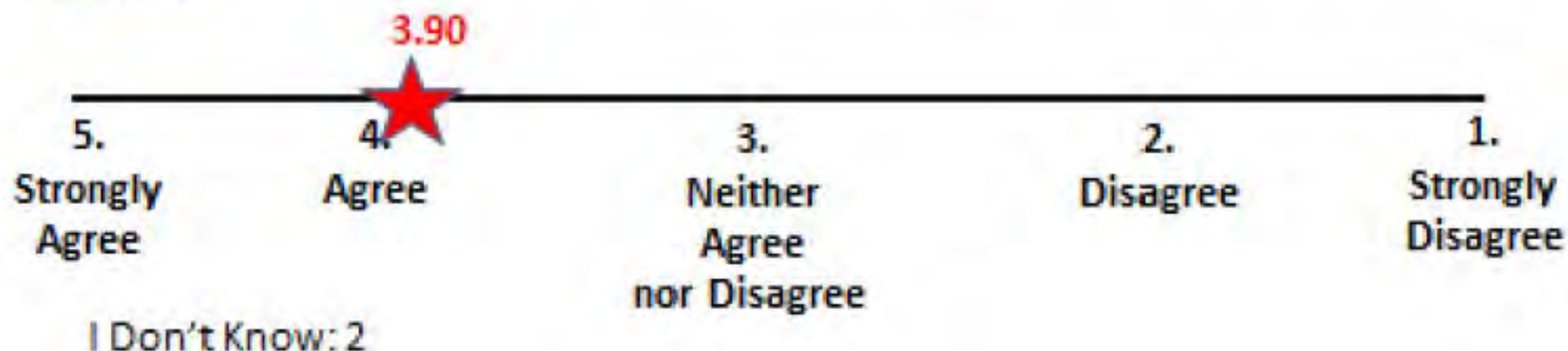
4. I have a clear way of reporting fraudulent or suspicious activity within my organization outside of my immediate supervisor.



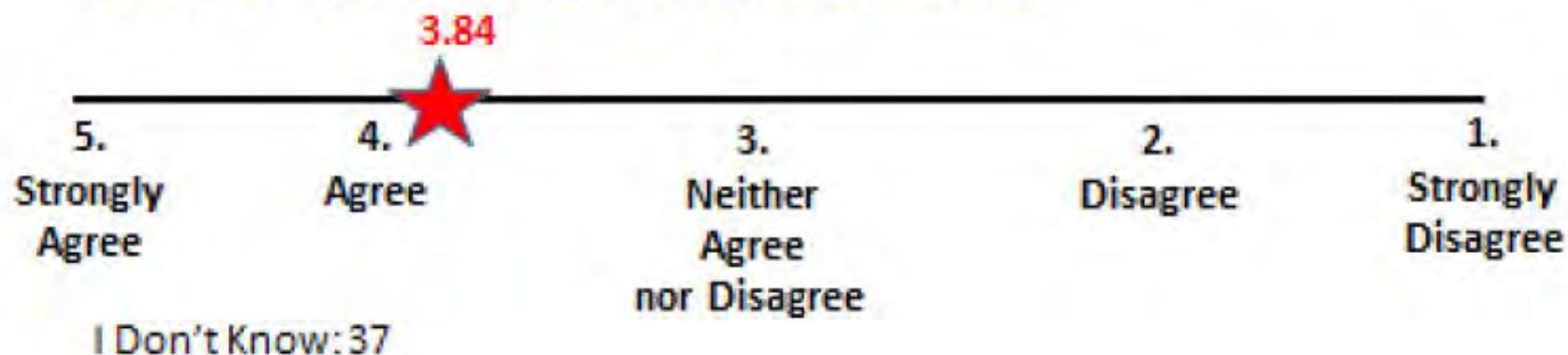
5. I know who to report to if I saw or suspected fraudulent activities.



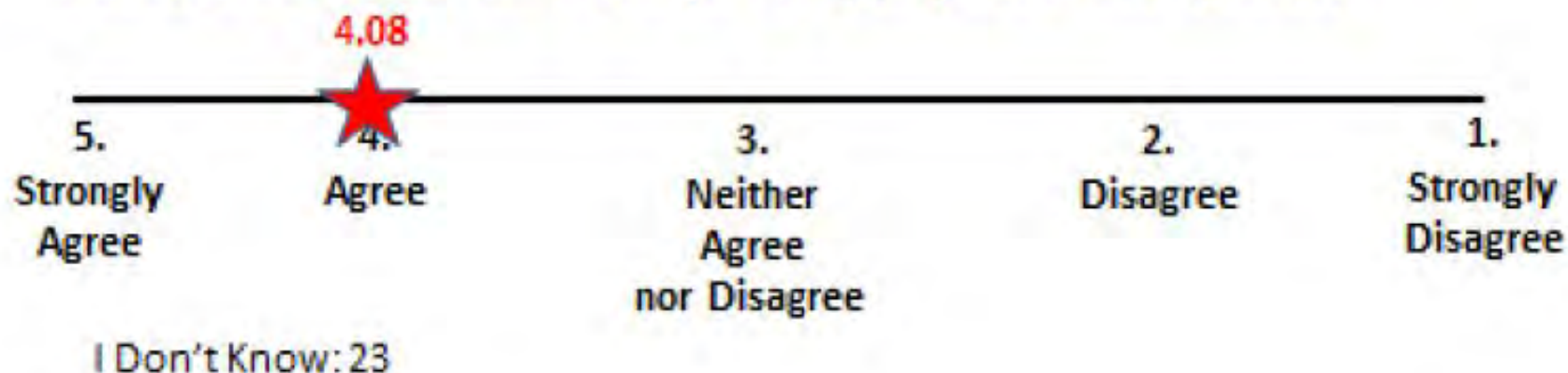
6. I have adequate knowledge of contracting fraud schemes to perform my duties.



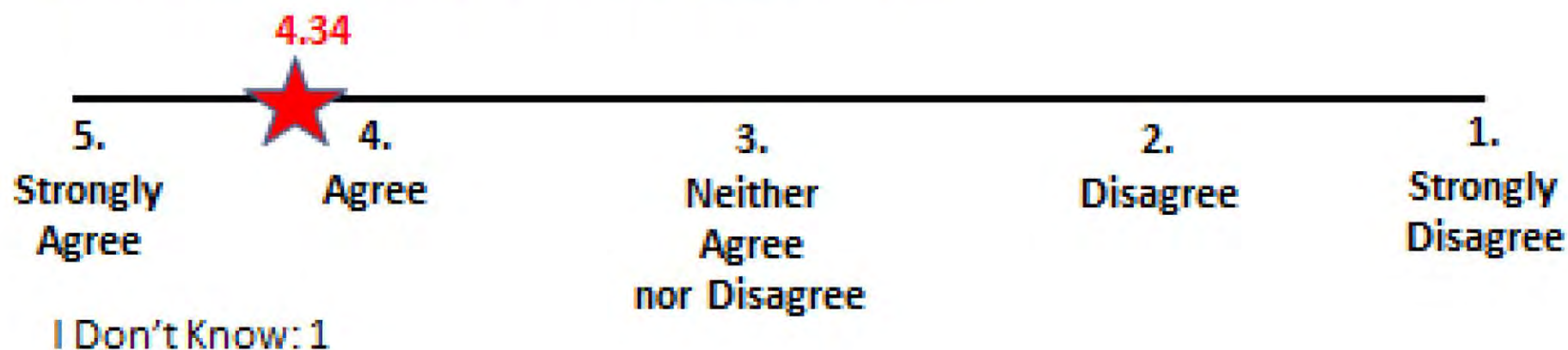
7. Instances of reported suspected fraudulent or suspicious activity have been adequately investigated by my organization.



8. Employees in my organization who are found to have participated in fraudulent activities will be subject to appropriate consequences.



9. My organization places sufficient emphasis on the importance of integrity, ethical conduct, fairness and honesty in their dealings with employees, vendors, and other organizations.





Implications of Findings

- Contracting officers may have a knowledge deficiency in the area of procurement internal controls.
- Contracting officers may be overly-optimistic in self-assessing their knowledge of procurement fraud schemes.
- Contracting officers' limited knowledge of procurement fraud and their perception that their organization is not susceptible to fraud may reveal that the organization could in fact be vulnerable to some form of procurement fraud.



Chang, P. W. (2013) Analysis of Contracting Processes, Internal Controls, and Procurement Fraud Schemes, MBA thesis, Naval Postgraduate School, Monterey CA.

Rendon, R. G. & Rendon, J. M. (in press).
Auditability in public procurement: An analysis
of internal controls and fraud vulnerability,
*International Journal of Procurement
Management*.



Questions/Comments

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Back Up Slides

Procurement Fraud Matrix

